FILED
AUG - 7 2000
CLERK

No. 00-22

IN THE

Supreme Court of the United States

SIGN-A-WAY, INC.,

Petitioner,

v.

MECHTRONICS CORPORATION,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the Federal Circuit erred in ruling that "Sign-A-Way's state law claim based on Mechtronics' duty of candor and good faith before the [Patent and Trademark Office] is preempted by federal patent law" where the Federal Circuit determined that the "breach of Mechtronics duty to Sign-A-Way turns exclusively on Mechtronics breach of its duty of candor and good faith described in 37 C.F.R. § 1.56."

STATEMENT PURSUANT TO RULE 29.6

Respondent, Mechtronics Corporation, has no parent corporation and no publicly held company owns 10% or more of its stock.

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Mechtronics Corporation ("Mechtronics"), hereby opposes the Petition of Sign-A-Way, Inc. ("Sign-A-Way") for a Writ of Certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

STATEMENT OF THE CASE

Sign-A-Way commenced this action alleging that Mechtronics had breached a promise to its sole shareholder, Donna Stearns ("Stearns"), to list her as an inventor on any patent application filed as a result of their collaboration in the development of a motorized, self-leveling sign hanging device. Mechtronics does not agree with Sign-A-Way's statement that Stearns had invented the device or a manually operated version thereof. Stearns had approached Mechtronics with a crude, inoperative manual model of a self leveling sign hanging device, and Mechtronics agreed to develop and motorize the device. Mechtronics eventually applied for a patent, without listing Stearns as an inventor.

The jury found that Stearns, who was told of the application by Mechtronics and was provided with a copy of the patent application within approximately a month of its being filed, manifested her consent to Mechtronics having made the application and to its contents. Appendix pp. 39a-40a.

Stearns assigned her rights in the device to Sign-A-Way, which commenced this action. The PTO subsequently issued U.S. Patent No. 5,529,274, titled "Sign Suspension System" (the "'274 Patent").

Sign-A-Way now argues that the jury's finding (made only by a preponderance of the evidence, *see* the District Court Decision, Appendix B to Sign-A-Way's Petition for a

Writ of Certiorari at p. 81a (hereinafter "Appendix __ at __") that Mechtronics breached the duty of candor and good faith owed to the PTO, leads to an independent tort claim on the part of Sign-A-Way. The Federal Circuit quite properly rejected this novel claim as infringing on federal patent law.

ARGUMENT

For the reasons set forth herein, Mechtronics submits that the Petition for Certiorari filed by Sign-A-Way is wholly lacking in merit and should not be granted.

While framing the issue as one of pre-emption, Sign-A-Way seeks to establish a novel, undefined state tort based upon the duty of a patent applicant to disclose material information to the Patent and Trademark Office ("PTO"). Specifically, Sign-A-Way relies upon a previously unrecognized "state-law duty of due respect for the interests of [Sign-A-Way] in the prosecution of the patent." Sign-A-Way Petition at p. 2. Significantly, Sign-A-Way has provided no authority for the existence of such a state law based duty.

I. The Federal Circuit Properly Found Preemption. The Cause Of Action Sought By Sign-A-Way Constitutes An Inappropriate Collateral Intrusion On The Regulatory Procedures of the PTO.

The Federal Circuit's decision constitutes nothing more than a straightforward application of established law. Article I, § 8, cl. 8 of the Constitution gives Congress the power to "promote the progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,

489 U.S. 143, 146, 109 S. Ct. 971, 975 (1989). Under this authority, the Congress enacted the Federal Patent Act, 35 U.S.C. §§ 1-376 (1994). The patent grant is within the exclusive purview of federal law, *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1355 (Fed. Cir. 1991), *cert. denied,* 505 U.S. 1205, 112 S. Ct. 2993 (1992), and state regulation of intellectual property must yield where it clashes with the balance struck by Congress in the Patent laws. *Bonito Boats*, 489 U.S. at 152, 109 S. Ct. at 978.

The tort on which Sign-A-Way relies is neither named nor defined. It is clear, however, that the purported tort is based, not upon Mechtronics' use of the '274 patent, but solely upon the prosecution of its application with the PTO.

As noted by the Federal Circuit,

> the breach of Mechtronics' duty to Sign-A-Way turns *exclusively* on Mechtronics breach of its duty of candor and good faith described in 37 C.F.R. § 1.56.
>
> The special verdict form hinged the violation of "Mechtronics' duty of due respect for interests of Sign-A-Way and Donna Stearns" on a finding of a violation of Mechtronics' "duty of candor and good faith in dealing with the Patent Office." *Sign-A-Way*, 12 F. Supp. 2d at 140. Allowing a claim, such as this, whose liability component is based solely on a violation of the standard defined in 37 C.F.R. § 1.56, would defeat federal patent law policy by providing a duplicate remedy for inequitable conduct at the state level. Federal patent law already provides an avenue of

> relief for Mechtronics' alleged misconduct, unenforceability of the patent, see 35 U.S.C. § 282, and attorney fees in an exceptional case, see 35 U.S.C. § 285.

Appendix A at 10a (emphasis added).

Accordingly, the Federal Circuit quite properly held that the claimed state tort claim was preempted as an inappropriate collateral attack on Mechtronics actions before the PTO. *Abbott Lab.*, 952 F.2d 1346.

The Federal Circuit's decision was neither novel, nor a "Napoleonic assertion of power." Sign-A-Way Petition For A Writ of Certiorari at p. 8. It was simply a straightforward application of established law. *See, e.g., Abbott Lab.*, 952 F.2d 1346; *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368 (Fed. Cir. 2000) (state RICO claim preempted). There is nothing new or improper in the proposition that "[I]f a plaintiff bases its tort action on conduct that is protected or governed by Federal patent law, then the plaintiff may not invoke the state-law remedy, which must be preempted for conflict with federal patent law." *Hunter Douglas Inc. v. Harmonic Design Inc.*, 153 F.3d 1318,1335 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1143, 119 S. Ct. 1037 (1999) overruled on other grounds *Midwest Indus. Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), *cert. denied*, __ U.S. __, 120 S. Ct. 527 (1999); see also *Daboub v. Gibbons*, 42 F.3d 285, 289 (5th Cir. 1995) (conversion claim preempted when core of plaintiff's claim alleged misuse of copyright material).

As in *Abbott Lab.*, the issue at bar relates directly to administrative proceedings before the PTO. *Abbott Lab.*, 952 F.2d at 1356. The PTO procedures themselves provide a remedy for the alleged inequitable conduct. As the Federal Circuit noted,

> there was nothing preventing Ms. Stearns from either (i) filing for her own patent, which she did in 1996; (ii) filing a protest regarding Mechtronics' application with the PTO under 37 C.F.R. § 1.291 alleging fraud or incorrect inventorship, *see, e.g. In re Smith*, 714 F.2d 1127, 1129 n.3, 218 USPQ 976,978 n.3 (Fed. Cir. 1983) (noting the role of a protester under 37 C.F.R. § 1.291); or (iii) filing suit in the Federal District Court under 35 U.S.C. § 256 for correction of inventorship of the '274 patent

Appendix A at 8a. "An additional state action would be an inappropriate collateral intrusion on the regulatory procedures of the PTO, 'under the guise of a complaint sounding in tort' . . . and [would be] contrary to Congress' preemptive regulation in the area of patent law." *Abbott Lab.*, 952 F.2d at 1357 (quoting *Gilbert v. Ben-Asher*, 900 F.2d 1407, 1411 (9th Cir. 1990), *cert. denied,* 498 U.S. 865, 111 S. Ct. 177 (1990)).

The Federal Circuit properly rejected this collateral intrusion as preempted by federal patent law.

II. The Undefined State Law Claim Relied Upon By Sign-A-Way Conflicts With Federal Patent Law In That It Requires Proof Of Inequitable Conduct Before The PTO By A Preponderance Of The Evidence Rather Than By Clear And Convincing Evidence.

The petition should be denied for the additional reason that it is clear that the cause of action relied upon by Sign-A-Way conflicts with federal patent law in that it requires a lower standard of proof with respect to claims of inequitable conduct before the PTO.

It is well established that a breach of the duty of candor and good faith owed to the PTO must be proved by clear and convincing evidence, not simply by a fair preponderance of the evidence. In the absence of clear and convincing evidence, breach of the duty cannot be inferred. *Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988); *Avco Corp. v. PPG Indus., Inc.*, 867 F. Supp. 84, 94 (D. Mass. 1994) (citing *Northern Telecom, Inc. v. Datapoint Corp.*, 908 F.2d 931, 939 (Fed. Cir. 1990), *cert. denied*, 498 U.S. 920 (1990)). Sign-A-Way conceded as much before the Federal Circuit. Since Sign-A-Way acknowledged that the standard of proof was inadequate, its petition should be denied. There is no point in determining whether a defective claim was properly preempted.

In any event, it is clear that where inequitable conduct before the PTO forms an element of a state law tort claim (for example, certain tortious interference claims) the inequitable conduct must be shown by the federal law standard — by clear and convincing evidence. *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1475 n.4 (Fed. Cir. 1998),

cert. denied, 525 U.S. 1138, 119 S. Ct.1026 (1998). Because the cause of action relied upon by Sign-A-Way is based upon a finding of inequitable conduct made only by a preponderance of the evidence, it conflicts with established federal law and must be preempted.

III. The Petition For Certiorari Should Be Denied Because The State Law Cause Of Action Claimed By Sign-A-Way Does Not Exist.

Sign-A-Way has cited no authority for the existence of a state-law duty of due respect for the interests of another party in the prosecution of a patent. The reason is simple — the unnamed, undefined state law cause of action claimed by Sign-A-Way does not exist. 35 U.S.C. § 115 requires a patent applicant to "make oath that he believes himself to be the original and first inventor" of the subject matter of the application. The duty an applicant owes to the PTO, however, creates no duty between the patent applicant and any purported inventor. *Wise v. Hubbard*, 769 F.2d 1 (1st Cir. 1985).

> Instead, because the PTO's interest is in rewarding the true inventor with the issuance of a patent, the sole duty created is between the applicant and the PTO. Breach of this duty simply results in the patent being "unauthorized by law and void. . . ."

Id. (citing *Kennedy v. Hazelton*, 128 U.S. 667, 672, 9 S. Ct. 202, 203 (1888). It does not give rise to an independent cause of action on the part of a co-inventor. *Id.* Certainly, state law cannot create a duty of care arising out of 35 U.S.C. § 115, where federal law has declined to do so.

IV. The Petition Should Be Denied Because Sign-A-Way Is Unable To Show A Compelling Reason For Its Allowance.

Sign-A-Way is unable to cite any compelling reason for the granting of a Writ of Certiorari.

The heart of Sign-A-Way's argument is that the Federal Circuit erred in its interpretation of Sign-A-Way's state law claim. Sign-A-Way argues "[t]he Federal Circuit based this incorrect conclusion [(that the claim was preempted)] on its interpretation of the state law claim as turning *exclusively* on Mechtronics breach of its duty of good faith, set forth in 37 C.F.R. § 1.56(a) (1999)." Application at p. 3 (emphasis in original). Sign-A-Way apparently concedes that such a state-common law claim (one which turns exclusively on a breach of the duty set forth in 37 C.F.R. § 1.56(a)) would be preempted. Indeed, it is difficult to imagine a state common law basis for regulating behavior before the PTO. Thus, Sign-A-Way's argument is that the Federal Circuit misapplied a correct rule of law by misinterpreting the state law claim — precisely the type of claim for which certiorari is "rarely granted". Rule 10 of the Rules of the Supreme Court of the United States.

Sign-A-Way is reduced to requesting that the Supreme Court to grant its petition to address a "trend in the Federal Circuit toward an unnecessarily expansive view of its own power." The position is unsupportable.

V. The Relief Requested By Sign-A-Way Would Not Alter The Final Result Of The Case As Sign-A-Way Does Not Challenge The Federal Circuit's Ruling That No Harm Was Caused By Mechtronics' Conduct.

Finally, resolution of the issue for which Sign-A-Way petitions for a Writ of Certiorari would not alter the outcome of the case. Sign-A-Way does not challenge the Federal Circuit's determination that there was no evidence of a causal link between Mechtronics breach of its alleged promise to list Stearns as an inventor and any harm suffered by Sign-A-Way, and does not provide evidence of any causal link between Mechtronics breach of the claimed duty, and any harm suffered by Sign-A-Way. Thus, under either theory, Sign-A-Way was not harmed and has no claim for money damages.

CONCLUSION

For all the foregoing reasons, Mechtronics Corporation requests that the Petition for Writ of Certiorari filed by Sign-A-Way, Inc. be denied.

Respectfully submitted,

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